

INTERNAL REVENUE SERVICE
District Director
2 Cupania Circle
Monterey Park, CA 91755-7431

DEPARTMENT OF THE TREASURY

Date: AUG 21 1997

Employer Identification Number:
[REDACTED]

Case Number:
[REDACTED]

Person to Contact:
[REDACTED]

Telephone Number:
[REDACTED]

Refer Reply To:
[REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]

Dear Applicant:

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(7) of the Internal Revenue Code. Based on the information submitted, we have concluded that you do not qualify for exemption under that section.

FACTS:

The information submitted discloses that you were incorporated [REDACTED] n [REDACTED]
Your Articles of Incorporation state, in pertinent part, that your purposes are "to promote and encourage quality and knowledge of all breeds of purebred dogs and to do all possible to bring their natural qualities to perfection; to protect and advance the interest of all breeds of purebred dogs and to encourage sportsmanlike competition at dogs shows and obedience trials; to conduct sanctioned matches, dog shows and obedience trials under the rules of The American Kennel Club; and to protect and advance the interests of dogs through meetings, programs and other educational activities."

Your application Form 1024 and supporting documents indicate that you sponsor two dog shows/obedience trials per year. The dog shows are open to the public and the average attendance at each show is approximately [REDACTED] people. In your response [REDACTED], you stated that you advertise that your dog shows are open to the public. In addition to the dog shows, you hold monthly meetings on the 3rd Wednesday of each month, except [REDACTED]. These meetings are also open to the public. Your primary source of income is from dog show entry fees. At your annual spring dog show, approximately [REDACTED] to [REDACTED] members and [REDACTED] nonmembers pay these fees. At your annual fall show, approximately [REDACTED] to [REDACTED] members and [REDACTED] nonmembers pay these fees.

LAW:

Section 501(c)(7) of the Internal Revenue Code provides for exemption from taxation for "clubs organized for pleasure, recreation, and other nonprofitable purposes, substantially all of the activities of which are for such purposes and no part of the net earnings of which inures to the benefit of any private shareholder."

Section 1.501(c)(7)-1(a) of the Income Tax Regulations provides in part that "the exemption provided by section 501(a) for organizations described in section 501(c)(7) applies only to clubs which are organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, but does not apply to any club if any part of its net earnings inures to the benefit of any private shareholder. In general, this exemption extends to social and recreational clubs which are supported solely by membership fees, dues and assessments."

Section 1.501(c)(7)-1(b) of the Income Tax Regulations provides in part that "a club which engages in business, such as making its social and recreational facilities available to the general public..., is not organized and operated exclusively for pleasure, recreation and other nonprofitable purposes, and is not exempt under section 501(a). Solicitation by advertisement or otherwise for public patronage of its facilities is prima facie evidence that the club is engaging in business and is not being operated exclusively for pleasure, recreation, or social purposes."

Senate Report No. 94-1318, 1976-2 C.B. 597, 599 states that "it is intended that these organizations [clubs exempt under IRC 501(c)(7)] be permitted to receive up to 35 percent of their gross receipts, including investment income, from sources outside of their membership without losing their tax-exempt status. It is also intended that within this 35 percent amount, not more than 15 percent of gross receipts should be derived from the use of a social club's facilities or services by the general public."

Revenue Ruling 65-63, 1965-1 C.B. 240, holds that "a nonprofit organization which, in conducting sports car events for the pleasure and recreation of its members, permits the general public to attend such events for a fee on a recurring basis and solicits patronage by advertising, does not qualify for exemption as a club organized and operated exclusively for pleasure, recreation and other nonprofitable purposes under section 501(c)(7) of the Internal Revenue Code."

ANALYSIS:

Our analysis of your case indicates that your principal activity is the conduct of two dog show/obedience trials per year. The dog shows are advertised to and open to the public. Your principal source of income is from dog show entry fees. Only [redacted] to [redacted] members pay these fees, while approximately [redacted] to [redacted] nonmembers pay the entry-fees. You are similar to the organization described in Revenue Ruling 65-63. Moreover, more than [redacted] percent of your income is from nonmembers. Therefore, you do not qualify for exemption as an organization described in section 501(c)(7) of the Code.

CONCLUSION:

We have concluded that you do not qualify for exemption from Federal income tax as an organization described in section 501(c)(7) of the Internal Revenue Code. Accordingly, you are required to file income tax returns on Form 1120 annually with your respective Service Center.

If you are in agreement with this determination, we request that you sign and return the enclosed agreement Form 6018. Please note the instructions for signing on the reverse side of this form.

[REDACTED]

If you are not in agreement with this proposed determination, we recommend that you request a hearing with our office of Regional Director of Appeals. Your request for a hearing should include a written appeal giving the facts, law, and any other information to support your position as explained in the enclosed Publication 892. You will then be contacted to arrange for a hearing. The hearing may be held at the office of Regional Director of Appeals, or if you request, at a mutually convenient District Office.

If we do not hear from you within 30 days from the date of this letter, and you do not protest this proposed determination in a timely manner, it will be considered by the Internal Revenue Service as a failure to exhaust available administrative remedies and will then become our final determination. Section 7428(b)(2) of the Internal Revenue Code provides in part that, "A declaratory judgment or decree under this section shall not be issued in any proceeding unless the Tax Court, the Court of Claims, or the District Court of the United States for the District of Columbia determines that the organization involved has exhausted administrative remedies available to it within the Internal Revenue Service."

Sincerely yours,

District Director

Enclosures:
Form 6018
Publication 892

Form **6018**
(Rev. August 1983)

Department of the Treasury-Internal Revenue Service
Consent to Proposed Adverse Action
(All references are to the Internal Revenue Code)

Prepare In
Duplicate

Case Number

Date of Latest Determination Letter
N/A

Employer Identification Number

Date of Proposed Adverse Action Letter
AUG 21 1997

Name and Address of Organization

I consent to the proposed adverse action relative to the above organization as shown by the box(es) checked below. I understand that if Section 7428, Declaratory Judgments Relating to Status and Classification of Organizations under Section 501(c)(3), etc. applies, I have the right to protest the proposed adverse action.

NATURE OF ADVERSE ACTION

☒ Denial of exemption 501(c)(7)

☐ Revocation of exemption, effective

☐ Modification of exempt status from section 501(c)() to 501(c)(), effective

☐ Classification as a private foundation (section 509(a)), effective

☐ Classification as a non-operating foundation (section 4942(j)(3)), effective

☐ Classification as an organization described in section 509(a)(), effective

☐ Classification as an organization described in section 170(b)(1)(A)(), effective

If you agree to the adverse action shown above, please sign and return this consent. You should keep a copy for your records.

If you sign this consent before you have exhausted your administrative appeal rights, you may lose your rights to a declaratory judgment under section 7428.

(Signature instructions are on the back of this form.)

Name of Organization

Signature and Title

Date

Signature and Title

Date